

CITY OF BAXTER, IOWA

Independent Auditors' Report  
Basic Financial Statements and  
Supplemental Information and Findings

June 30, 2010

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City of Baxter, Iowa  
Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Stephen C. Smith	Mayor	December, 2011
Bryan DeJong	Mayor Pro Tem	December, 2013
Todd England	Council Member	December, 2011
Larry Hesson	Council Member	December, 2011
Kelly Milligan	Council Member	December, 2013
Eric Nation	Council Member	December, 2013
Peg Kimberley	City Clerk/Treasurer	Indefinite
John Billingsley	City Attorney	Indefinite

# POLLARD AND COMPANY P.C.

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PRIVATE COMPANIES PRACTICE SECTION  
IOWA SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

### INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council  
City of Baxter

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Baxter, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Baxter's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City were not audited from July 1, 2004 to June 30, 2008. Accordingly, we were unable to satisfy ourselves as to the distribution of the total fund balance at July 1, 2009.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2009, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Baxter as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also included our report on our consideration of the City of Baxter's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparison information are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Baxter's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2009 (which is not presented herein) and expressed a qualified opinion on that financial statement which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U. S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

January 25, 2011

*Pollard and Company P.C.*

## **CITY OF BAXTER**

### **Management's Discussion and Analysis June 30, 2010**

The City of Baxter provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City financial statements, which follow.

#### **2010 FINANCIAL HIGHLIGHTS**

Revenues of the City's governmental activities came to \$2,760,096. Receipts included \$311,572 in property tax, \$474,560 from charges for service, \$1,183,525 from operating grants, contributions and restricted interest, \$76,647 from local option taxes, \$5,463 from unrestricted interest on investments, \$7,664 from other general receipts, and \$700,665 from bond proceeds.

Disbursements came to \$2,785,902. Disbursements included \$148,271 for public safety, \$194,029 for community and economic development, and \$110,023 for public works, \$107,977 for general disbursements. Disbursements for business type activities totaled \$2,225,602.

The City's total cash basis net assets came to \$574,876 with a decrease of \$25,806 for the fiscal year.

#### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

### **Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks, sanitary sewer system, and landfill. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include:

1) General Fund, 2) Special Revenue Funds (Road Use, Local Option Sales Tax, Employee Benefits, and Urban Renewal Tax Increment), 3) Debt Service Fund, and 4) Permanent Fund.

The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and landfill funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash basis overall net assets decreased by \$25,806 during the fiscal year ending June 30, 2010. The following is an analysis of cash balances for governmental and proprietary activities as of year ended June 30, 2010.



## Changes in Cash Basis Net Assets of Governmental and Proprietary Activities

Receipts	Proprietary	Governmental
Property Taxes		170,979
Tax Increment Financing		140,593
Other City Taxes		76,647
Licenses and Permits		2,990
Use of Money and Property	837	8,893
Intergovernmental	1,071,474	111,214
Charges for Service	465,982	2,158
Miscellaneous		7,664
Total Receipts	<u>\$1,538,293</u>	<u>\$521,138</u>
Disbursements		
Public Safety		148,271
Public Works		110,023
Health and Social Services		780
Culture and Recreation		37,420
Community and Economic Development		194,029
General Government		59,031
Debt Service	111,888	10,476
Business Type Activities	277,350	
Capital Projects	1,836,364	
Total Disbursements	<u>\$2,225,602</u>	<u>\$560,300</u>
Excess (Deficit) of Receipts Over (Under) Disbursements	(687,309)	(39,162)
Bond Proceeds	700,665	
Excess (Deficiency) of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	13,356	(39,162)
Balance Beginning of Year	167,641	433,041
Balance End of Year	180,997	393,879

The City's total receipts for governmental activities were \$521,138 for fiscal year ending June 30, 2010. Decreases were seen in anticipated Local Option and Road Use funding.

The City's total disbursements for governmental activities were \$560,300 for fiscal year ending June 30, 2010. Increases were largely seen in Public Safety expenses, Public Works snow removal expenditures and TIF expenditures. Proprietary funds expenditures totaled \$2,225,602 which included expenditures involving the Clear Well Pump Water Improvement Project, Storm Water Improvement Project and the Wastewater Lagoon Construction Project.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

The City of Baxter ended fiscal year 2009/10 with a combined governmental fund balance of \$393,879 a decrease of \$39,162 over the beginning of the year fund balance. The following are the major reasons for the changes in fund balances of certain major funds from the prior year.

General Fund – The General Fund cash balance decreased by \$56,420 during the fiscal year. Expenditures increased in Public Safety and additional General Government expenditures.

TIF Fund – The TIF Fund cash balance decreased by \$78,160 with an increase in TIF expenditures.

## **INDIVIDUAL MAJOR PROPRIETARY FUND ANALYSIS**

The Water Fund cash balance increased by \$94,960 primarily due to an increase in water rates necessary for financing of the Clear Well Pump Station Water Improvement Project. Allocated funds are deposited into the Water Depreciation Reserve at the end of each fiscal year for future water infrastructure improvements.

The Sewer Fund cash balance decreased by \$81,123 primarily due to expenditures with the Wastewater Lagoon Construction Project and receipt of government funding. Allocated funds are deposited into the Sewer Depreciation Reserve at the end of each fiscal year for future wastewater infrastructure improvements.

The Landfill Fund cash balance decreased by \$481 during the fiscal year. The decrease was primarily due to a shortfall in expected service revenue.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once in June, 2010. This amendment covered additional disbursements in Public Works with additional expenses for shop maintenance, vehicle repairs and snow removal. Additional expenses in the Proprietary Fund involving an increase in water and landfill spending. And expenditures in the Capital Projects Fund to cover the water, wastewater and storm water infrastructure projects. Additional revenues were seen in Local Option Tax and franchise fees. An increase was seen in estimated Road Use funding and in the overall Proprietary Fund. Funding was also received in the Capital Projects Fund in regards to the City's infrastructure projects. The City had sufficient cash balances to absorb these additional costs.

## DEBT ADMINISTRATION

As of June 30, 2010, the City had approximately \$2,439,930 in bond and other long-term debt compared to approximately \$1,964,324 June 30, 20 09. Increase was due to the addition of the Clear Well Pump Station Water Improvement Project, Storm Water Improvement Project and the Wastewater Lagoon Construction Project debts.

### Outstanding Long-Term Debt at June 30, 2010

General Obligation	68,617
TIF	496,954
Revenue Bonds	1,874,359
Other Long Term Debt	7,388
Grand Total	<u>\$2,439,930</u>

The City's outstanding general obligation and TIF debt is below its constitutional debt limit of 5% of the taxable value of the properties.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Baxter's elected and appointed officials considered many factors when setting the fiscal year 2011 budget, tax rates, and fees. At the time of 2011 budget the City was nearing completion on the Clear Well Pump Station Water Improvement Project. Total cost of the project being \$404,000. Project was funded by an SRF Green Reserve Loan for \$272,000 along with a forgivable balance of \$68,000. An additional loan for \$64,000 was acquired through State Savings Bank for the remainder of the project. At the same time the City was looking at a June completion date on the Storm Water Improvement Project. Total cost of the project being \$1,779,000. Project was funded by an SRF Green Reserve Loan for \$1,025,000 along with a forgivable balance of \$254,000. An additional \$500,000 was received through CDBG Stimulus funding. A third infrastructure project, the Wastewater Lagoon Construction Project was underway with a completion date of fall 2011. Total cost of the project being \$4,277,852. Project was funded by an SRF Construction Loan for \$1,702,000 along with a forgivable balance of \$1,123,000. An additional \$852,852 was received through the Wastewater Treatment Financial Assistance Program along with \$600,000 in CDBG Stimulus funding. It was determined to pay back the water and wastewater as revenue bonds with the storm water to be paid for with Tax Increment Finance funding. These factors were taken into account when adopting the budget for the fiscal year 2011/12. Budgeted receipts are estimated at \$1,852,105 with budgeted disbursements estimated at \$1,883,195. City investments, time certificates and savings accounts must also be taken into consideration in this overall picture.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by -\$31,090.

#### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Peg Kimberley, City Clerk, 203 S. Main Street, Baxter, Iowa.

City of Baxter, Iowa

Statement of Activities and Net Assets – Cash Basis  
As of and for the year ended June 30, 2010

Functions/Programs	Disbursements	Program Receipts	
		Charges for Services	Operating Grants, Contributions, and Restricted Interest
Governmental Activities			Capital Grants, Contributions and Restricted Interest
Public safety	\$ 148,271	\$ 2,990	
Public works	110,023		98,871
Health and social services	780		
Culture and recreation	37,420		12,343
Community and economic development	194,029		
General government	59,301	5,588	
Debt service	10,476		
Total governmental activities	560,300	8,578	111,214
Business type activities			
Water	398,512	158,759	219,459
Sewer	1,747,329	227,943	852,852
Landfill	79,761	79,280	
Total business type activities	2,225,602	465,982	1,072,311
Total Primary Government	\$ 2,785,902	\$ 474,560	\$ 1,183,525
Component Unit			
Baxter Economic Development Corporation	\$ 76,353	\$ 60,684	
General Receipts			
Property tax levied for			
General purposes			
Tax increment financing			
Local option sales tax			
Unrestricted interest on investments			
Bond proceeds			
Miscellaneous			
Total general receipts and transfers			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			
Cash basis net assets			
Restricted (deficit)			
Streets			
Debt service			
Other purposes			
Unrestricted			
Total cash basis net assets			

*There were no reconciling items between the Governmental and Proprietary Fund Statements of Cash Receipts, Disbursements and Changes in Cash Balances and the above Statement. See notes to financial statements.*

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			Discretely Presented Component Unit
Governmental Activities	Business Type Activities	Total	
\$ (145,281)		\$ (145,281)	
(11,152)		(11,152)	
(780)		(780)	
(25,077)		(25,077)	
(194,029)		(194,029)	
(53,713)		(53,713)	
(10,476)		(10,476)	
(440,508)		(440,508)	
	(20,294)	(20,294)	
	(666,534)	(666,534)	
	(481)	(481)	
	(687,309)	(687,309)	
\$ (440,508)	\$ (687,309)	\$ (1,127,817)	
			(15,669)
170,979		170,979	
140,593		140,593	
76,647		76,647	
5,463		5,463	773
	700,665	700,665	
7,664		7,664	
401,346	700,665	1,102,011	773
(39,162)	13,356	(25,806)	(14,896)
433,041	167,641	600,682	1,012,189
\$ 393,879	\$ 180,997	\$ 574,876	\$ 997,293
\$ 33,466	\$	\$ 33,466	\$
(8,070)		(8,070)	
302,409	175,198	477,607	997,293
66,074	5,799	71,873	
\$ 393,879	\$ 180,997	\$ 574,876	\$ 997,293

City of Baxter, Iowa  
Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Governmental Funds  
As of and for the year ended June 30, 2010

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Employee Benefits
<b>Receipts</b>				
Property Taxes	\$ 136,492	\$	\$	\$ 29,951
Tax Increment Financing Collections				
Other City Taxes			76,647	
Licenses and Permits	2,990			
Use of Money and Property	8,893			
Intergovernmental	12,343	98,871		
Charges for Services	2,158			
Miscellaneous	7,226	300		
<b>Total Receipts</b>	<b>170,102</b>	<b>99,171</b>	<b>76,647</b>	<b>29,951</b>
<b>Disbursements</b>				
Operating				
Public Safety	132,554			15,717
Public Works	1,500	99,310		9,213
Health and Social Services	780			
Culture and Recreation	37,420			
Community and Economic Development	654			
General Government	53,614			5,687
Debt Service				
<b>Total Disbursements</b>	<b>226,522</b>	<b>99,310</b>		<b>30,617</b>
Excess (deficiency) of receipts over (under) disbursements	(56,420)	(139)	76,647	(666)
Other financing sources (uses)				
Operating transfers in	81,183			
Operating transfers out			(76,647)	
<b>Total other financing sources (uses)</b>	<b>81,183</b>		<b>(76,647)</b>	
<b>Net change in cash balances</b>	<b>24,763</b>	<b>(139)</b>		<b>(666)</b>
Cash balance - beginning of year	41,311	33,605		
Cash balance - end of year	\$ 66,074	\$ 33,466	\$	\$ (666)
<b>Cash basis fund balances (Deficit)</b>				
Reserved				
Debt service	\$	\$	\$	\$
Unreserved				
General fund	66,074			
Special revenue funds		33,466		(666)
Permanent fund				
<b>Total cash basis fund balances</b>	<b>\$ 66,074</b>	<b>\$ 33,466</b>	<b>\$</b>	<b>\$ (666)</b>

The accompanying notes to financial statements are an integral part of this statement.

Special Revenue				
Urban Renewal Tax Increment	Urban Renewal Tax Increment - L.M.I.	Other Nonmajor Governmental Funds	Total	
\$	\$	\$	4,536	\$ 170,979
110,593	30,000			140,593
				76,647
				2,990
				8,893
				111,214
				2,158
		138		7,664
110,593	30,000	4,674		521,138
				148,271
				110,023
				780
				37,420
188,753	4,622			194,029
				59,301
		10,476		10,476
188,753	4,622	10,476		560,300
(78,160)	25,378	(5,802)		(39,162)
				81,183
		(4,536)		(81,183)
		(4,536)		
(78,160)	25,378	(10,338)		(39,162)
194,812	110,367	52,946		433,041
\$ 116,652	\$ 135,745	\$ 42,608	\$	393,879
\$	\$	\$	(8,070)	\$ (8,070)
		30		66,104
116,652	135,745			285,197
		50,648		50,648
\$ 116,652	\$ 135,745	\$ 42,608	\$	393,879



## Exhibit C

City of Baxter, Iowa  
Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds  
As of and for the year ended June 30, 2010

	Water	Sewer	Landfill	Total
Operating receipts				
Charges for service	\$ 158,759	\$ 227,943	\$ 79,280	\$ 465,982
Total operating receipts				
Operating disbursements				
Business-type activities	131,352	66,237	79,761	277,350
Total operating disbursements	131,352	66,237	79,761	277,350
Excess (deficiency) of operating receipts over (under) operating disbursements	27,407	161,706	(481)	188,632
Non-operating receipts (disbursements)				
Intergovernmental	218,622	852,852		1,071,474
Interest on Investments	677	160		837
Bond Proceeds	115,414	585,251		700,665
Capital Projects	(232,454)	(1,603,910)		(1,836,364)
Debt service	(34,706)	(77,182)		(111,888)
Total non-operating receipts (disbursements)	67,553	(242,829)		(175,276)
Excess (Deficiency) of receipts over (under) disbursements	94,960	(81,123)	(481)	13,356
Cash balances - beginning of year	12,422	88,711	66,508	167,641
Cash balances - end of year	\$ 107,382	\$ 7,588	\$ 66,027	\$ 180,997
Cash basis fund balances				
Landfill closure costs	\$	\$	\$ 66,027	\$ 66,027
Unreserved	5,799			5,799
Capital projects	\$ 101,583	\$ 7,588		\$ 109,171
Total cash basis fund balances	\$ 107,382	\$ 7,588	\$ 66,027	\$ 180,997

*See notes to financial statements*

City of Baxter, Iowa  
Notes To Financial Statements  
June 30, 2010

1/ Summary of Significant Accounting Policies

The City of Baxter is a political subdivision of the State of Iowa located in Jasper County. It was first incorporated in 1894 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements, and general administrative services.

A. Reporting Entity

For financial reporting purposes, the City of Baxter has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing board and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

The Baxter Economic Development Corporation is a not-for-profit corporation organized for the purpose of performing specific economic development activities within the City of Baxter. The Baxter Economic Development Corporation has a fiscal year end that is different from that of the primary government. The financial information reported in the Statement of Activities and Net Assets – Cash Basis reflects the unaudited revenue and expenses for the year ending December 31, 2009.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the City's citizenry, but do not meet the criteria for a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: The Jasper County Library Board, Jasper County E911 Board, Jasper County Disaster Services, and Jasper County Animal Rescue League.

The City joined with the West Malaka Benefited Fire District to finance the operations for fire suppression and emergency response for all rural property within the benefited fire district. The City and District share in the cost of operating a fire department based upon a running five year average based on total taxable property valuations, annual total of fire and rescue calls, and homestead tax credits within the area. The agreement covers the fiscal year ending June 30, 2010 and is renewed on an annual basis. During the year ended June 30, 2010, the City paid \$25,859 to the District.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

B. Basis of Presentation (continued)

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

Local Option Sales Tax is used to account for the one cent local option tax.

The Employee Benefits Fund is used to account for the tax levy and the disbursement for the benefits.

Urban Renewal Tax Increment Fund is used to account for the tax increment financing collections and the repayment of tax increment financing indebtedness and the payment of other expenses relating to the Tax Increment Financing District

Urban Renewal Tax Increment – LMI Fund is used to account for the tax increment financing collections and payment of expenses related to the City's Low to Moderate Income housing program.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system and its capital improvements disbursements and financing sources.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system and its capital improvements disbursements and financing sources.

The Landfill Fund accounts for the operation of the City's solid waste disposal system.

C. Measurement Focus and Basis of Accounting

The City of Baxter maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operation of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a propriety fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budget and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

2/ Cash and Pooled Investments

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Interest Rate Risk – the City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but maturities shall be consistent with the needs and use of the City.

### 3/ Bonds and Notes Payable

Annual debt service requirements for general obligation notes, and revenue bonds and notes are as follows:

Year Ending June 30,	General Obligation Bonds		Tax Increment Financing Revenue Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	7,377	443	141,630	17,746	61,773	42,032	210,780	60,221
2012			91,108	13,120	64,612	39,843	155,720	52,963
2013			91,108	9,840	66,492	36,953	157,600	46,793
2014			91,108	6,560	68,417	35,188	159,525	41,748
2015			82,000	3,280	71,388	29,876	153,388	33,156
2016-2020					400,286	123,329	400,286	123,329
2021-2025					374,966	52,421	374,966	52,421
2026-2027					127,000	5,460	127,000	5,460
Total	\$ 7,377	\$ 443	\$ 496,954	\$ 50,546	\$ 1,234,934	\$ 365,102	\$ 1,739,265	\$ 416,091

#### Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$500,000 in water revenue bonds issued in September 1982. Proceeds from the bonds provided financing for the water system construction and improvement. The bonds are payable solely from water customer net receipts and are payable through 2022. Annual principal and interest payments on the bonds are expected to equal net receipts. The total principal and interest remaining to be paid on the bonds is \$343,717. For the current year, principal and interest paid and customer net receipts were \$30,000 and \$27,407, respectively. Effective July 1, 2010, the water rates were increased.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,203,000 in sewer revenue bonds issued in March 2007 and January 2008. Proceeds from the bonds provided financing for the sewer treatment plant construction and improvement. The bonds are payable solely from sewer customer net receipts and are payable through 2027. Annual principal and interest payments on the bonds are expected to require less than 47 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,325,946. For the current year, principal and interest paid and customer net receipts were \$74,627 and \$161,706, respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions.

- The bonds will only be redeemed from the future earnings of each enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking accounts for the purpose of making the bond principal and interest payments when due.
- Sewer user rates shall be established and charged to customers at least sufficient to pay the expenses of operation and maintenance and to have a balance of net revenues equal to at least 110% of the principal and interest on the bonds falling due in the same year.

During the year, the City issued \$340,000 in Water Revenue Bonds and \$2,825,000 in Sewer Revenue Bonds to improve the water and sewer systems. Through June 30, 2010, the entire proceeds from the bonds had not been received because the projects were not complete. In addition, \$68,000 of the Water Revenue Bonds and \$1,123,000 of the Sewer Revenue Bonds will be forgivable when the projects are complete.

3/ Bonds and Notes Payable (continued)

The annual debt service requirements will not be determined until the projects are completed in the year ending June 30, 2011.

Urban Renewal Tax Increment Financing Revenue Bonds

The City issued \$1,404,648 of urban renewal tax increment financing (TIF) revenue bonds for the purpose of defraying a portion of the costs of various construction and refurbishing projects within the urban renewal district. The bonds are payable solely from TIF receipts generated by increased property values in the City's TIF district and credited to the Special Revenue, Urban Renewal Tax Increment Funds in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100 percent of the debt service requirements over the life of the bonds. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. For the current year, principal and interest paid, and total TIF receipts were \$181,438 and \$140,593, respectively.

Storm Water Improvement Bonds

During the year, the City issued \$1,279,000 in bonds to improve the storm water system. Through June 30, 2010, the entire proceeds from the bonds had not been received because the project was not complete. In addition, \$254,000 of the bonds will be forgivable when the project is complete. The annual debt service requirements will not be determined until the project is completed in the year ending June 30, 2011.

4/ Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2010 were \$13,345, equal to the required contributions for the year.

5/ Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for these earned termination payments payable to employees at June 30, 2010, primarily relating to the General Fund, is \$10,900.

This liability has been computed based on rates of pay as of June 30, 2010.

6/ Risk Management

The City of Baxter is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

7/ Interfund Transfers

During the year, the Emergency Levy Fund transferred \$4,536 and the Local Option Sales Tax Fund transferred \$76,647 to the General Fund. Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

8/ Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that effect the reported amounts and disclosure of liabilities, contingent liabilities, and commitments at the date of the financial statements, and the classification of receipts and disbursements during the reporting period. Actual results could differ from the estimates that were used.

9/ Landfill Closure and Postclosure Care

The City has entered into an agreement with several other municipalities, as allowed under Code of Iowa Section 28E, to provide for economically and environmentally responsible disposal of solid waste and establish permanent responsibility for the Newton Sanitary Landfill. State and Federal laws and regulations require the Newton Sanitary Landfill to place a final cover on the site and perform certain maintenance and monitoring functions at the site for thirty years after closure. To date, 29% of the landfill has been filled and the estimated total liability for such is \$4,744,200, based on 2010 cost estimates. Actual costs may be higher due to inflation, technology changes, and changes in regulations. As specified in the 28E agreement, the City is responsible for 2.11% or approximately \$100,000. The City's proportionate share is updated annually in accordance with the agreement.

10/ Related Party Transactions

The City had business transactions between the City and City officials totaling \$12,989 during the year ended June 30, 2010.

11/ Tax Increment Financing- LMI

The Urban Renewal Tax Increment – LMI fund contains the division of tax receipts as provided for in Chapter 403.19 of the Code of Iowa for the purpose of providing or aiding public improvements and residential development. That Chapter and Chapter 403.22 provides that the City must include assistance to low and moderate income family housing. The City has adopted and implemented an affordable housing plan.

12/ Construction Commitments

The City has committed to the construction of water, sewer and storm water improvements totaling \$4,578,000 which will be financed by the remaining proceeds of \$4,025,000 from the respective bonds issued during the year plus a \$600,000 Community Development Block Grant to be received in the year ending June 30, 2011.

13/ Deficit Fund Balances

The Employee Benefits and the Debt Service Funds had deficit balances of \$ 666 and \$8,070. The deficits will be eliminated by future tax receipts.

City of Baxter, Iowa  
 Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances  
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds  
 Required Supplementary Information  
 Year ended June 30, 2010

	Governmental Funds Actual	Enterprise Funds Actual	Net
Receipts			
Property Taxes	\$ 170,979	\$	\$ 170,979
Tax Increment Financing Collections	140,593		140,593
Other City Taxes	76,647		76,647
Licenses and permits	2,990		2,990
Use of money and property	8,893	837	9,730
Intergovernmental	111,214	1,071,474	1,182,688
Charges for Service	2,158	465,982	468,140
Special Assessments			
Miscellaneous	7,664		7,664
Total Receipts	521,138	1,538,293	\$ 2,059,431
Disbursements			
Public safety	148,271		148,271
Public works	110,023		110,023
Health and Social Services	780		780
Culture and recreation	37,420		37,420
Community and economic development	194,029		194,029
General government	59,301		59,301
Debt service	10,476		10,476
Business type activities		2,225,602	2,225,602
Total Disbursements	560,300	2,225,602	2,785,902
Excess (deficiency) of receipts over (under) disbursements	(39,162)	(687,309)	(726,471)
Other financing sources, net		700,665	700,665
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(39,162)	13,356	(25,806)
Balance - beginning of year	433,041	167,641	600,682
Balance - end of year	\$ 393,879	\$ 180,997	\$ 574,876

*See accompanying independent auditors' report.*



Budgeted Amounts		
Original	Final	Final to Net Variance
\$ 164,830	\$ 164,830	\$ 6,149
137,294	137,294	3,299
69,603	86,441	(9,794)
2,880	2,880	110
13,550	13,550	(3,820)
101,000	2,634,834	(1,452,146)
446,120	478,381	(10,241)
515	941	(941)
1,592	1,592	6,072
937,384	3,520,743	(1,461,312)
170,062	170,062	(21,791)
100,170	111,313	(1,290)
780	780	
42,620	42,620	(5,200)
222,203	198,713	(4,684)
67,831	67,831	(8,530)
	12,013	(1,537)
411,892	2,942,458	(716,856)
1,015,558	3,545,790	(759,888)
(78,174)	(25,047)	(701,424)
1,000	500	700,165
(77,174)	(24,547)	(1,259)
522,726	522,726	77,956
\$ 445,552	\$ 498,179	\$ 76,697

City of Baxter, Iowa  
Notes to Required Supplementary Information – Budgetary Reporting  
June 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$2,530,232. The budget amendment is reflected in the final budgeted amounts.

City of Baxter, Iowa  
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances  
Nonmajor Governmental Funds  
As of and for the year ended June 30, 2010

	Special Revenue		Permanent	
	Emergency Levy	Cemetery Perpetual Care	Debt Service	Total
Receipts				
Property tax	\$ 4,536	\$	\$	4,536
Miscellaneous		138		138
Total Receipts	4,536			4,536
Disbursements				
Operating				
Debt Service			10,476	10,476
Total Disbursements				
Excess (deficiency) of receipts over (under) disbursements	4,536	138	(10,476)	(5,802)
Other financing sources (uses)				
Operating transfers out	(4,536)			(4,536)
Total other financing sources (uses)	(4,536)			(4,536)
Net change in cash balances		138	(10,476)	(10,338)
Cash balance - beginning of year	30	50,510	2,406	52,946
Cash balance (Deficit) - end of year	\$ 30	\$ 50,648	\$ (8,070)	\$ 42,608
Cash basis fund balances				
Reserved				
Debt service	\$	\$	\$ (8,070)	\$ (8,070)
Unreserved				
Special revenue funds	30			30
Permanent fund		50,648		50,648
Total cash basis fund balances	\$ 30	\$ 50,648	\$ (8,070)	\$ 42,608

See accompanying independent auditors' report.

City of Baxter, Iowa  
Schedule of Indebtedness  
For the year ended June 30, 2010

Schedule 2

	Date of Issue	Interest Rates	Amount Originally Issued
<b>General Obligation Notes and Bonds</b>			
Emergency Generator	June, 2008	6.00%	\$ 21,420
Storm Water Improvement Bonds 2010A	February, 2010	3.00%	1,025,000
Storm Water Improvement Bonds 2010B	February, 2010	3.00%	\$ 254,000
Totals			
<b>Urban Renewal Tax Increment</b>			
Financing (TIF) Revenue Bonds			
Series 2003 A	August, 2003	3.68%	530,000
Annual Appropriation Series 2005	March, 2005	4.00%	820,000
Kid-Ville, Inc.	August, 2008	0.00%	54,648
Totals			
<b>Revenue Bonds</b>			
Water Project Bonds	November, 1982	5.00%	\$ 500,000
Sewer Revenue Bonds Series 2007	March, 2007	3.00%	303,000
Sewer Revenue Bonds Series 2008	January, 2008	3.00%	900,000
Water Revenue Bond 2010A	February, 2010	3.00%	272,000
Water Revenue Bond 2010B	February, 2010	3.00%	68,000
Sewer Revenue Bonds Series 2010A	February, 2010	3.00%	1,702,000
Sewer Revenue Bonds Series 2010B	February, 2010	3.00%	1,123,000
Totals			

*See accompanying independent auditor's report.*

## Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 14,336		\$ 6,959	\$ 7,377	\$ 861
	22,816		22,816	93
	38,424		38,424	
<u>\$ 14,336</u>	<u>\$ 61,240</u>	<u>\$ 6,959</u>	<u>\$ 68,617</u>	<u>\$ 954</u>
\$ 117,034		\$ 66,512	\$ 50,522	\$ 4,138
492,000		82,000	410,000	19,680
45,540		9,108	36,432	
<u>\$ 654,574</u>		<u>\$ 157,620</u>	<u>\$ 496,954</u>	<u>\$ 23,818</u>
\$ 273,414		\$ 16,480	\$ 256,934	\$ 13,520
260,000		12,000	248,000	7,800
762,000		32,000	730,000	22,827
	47,414		47,414	25
	68,000		68,000	
	17,020		17,020	
	506,991		506,991	
<u>\$ 1,295,414</u>	<u>\$ 639,425</u>	<u>\$ 60,480</u>	<u>\$ 1,874,359</u>	<u>\$ 44,172</u>

City of Baxter, Iowa  
Bond and Note Maturities  
June 30, 2010

Schedule 3

General Obligation Note			Urban Renewal Tax Increment (TIF) Revenue Bonds						
Emergency Generator			Annual Appropriation Series 2005						
Issued June 5, 2008			Series 2003A		Kid-Ville, Inc				
Year Ending June 30,	Interest Rates (%)	Amount	Issued August 1, 2003		Issued March 16, 2005		Issued August 11, 2008		Total
			Interest Rates (%)	Amount	Interest Rates (%)	Amount	Interest Rates (%)	Amount	
2011	6.00	7,377	3.68	50,522	4.00	82,000	0.00	9,108	141,630
2012					4.00	82,000	0.00	9,108	91,108
2013					4.00	82,000	0.00	9,108	91,108
2014					4.00	82,000	0.00	9,108	91,108
2015					4.00	82,000			82,000
Totals		<u>\$ 7,377</u>		<u>\$ 50,522</u>		<u>\$ 410,000</u>		<u>\$ 36,432</u>	<u>\$ 496,954</u>

Revenue Bonds							
Water Project Bonds				Sewer Revenue Bonds Series 2007    Sewer Revenue Bonds Series 2008			
Year Ending June 30,	Issued November 23, 1982		Issued March 15, 2007		Issued January 29, 2008		Total
	Interest Rates (%)	Amount	Interest Rates (%)	Amount	Interest Rates (%)	Amount	
2011	5.00	16,773	3.00	12,000	3.00	33,000	61,773
2012	5.00	17,612	3.00	13,000	3.00	34,000	64,612
2013	5.00	18,492	3.00	13,000	3.00	35,000	66,492
2014	5.00	19,417	3.00	13,000	3.00	36,000	68,417
2015	5.00	20,388	3.00	14,000	3.00	37,000	71,388
2016	5.00	21,407	3.00	14,000	3.00	39,000	74,407
2017	5.00	22,477	3.00	15,000	3.00	40,000	77,477
2018	5.00	23,601	3.00	15,000	3.00	41,000	79,601
2019	5.00	24,781	3.00	16,000	3.00	42,000	82,781
2020	5.00	26,020	3.00	16,000	3.00	44,000	86,020
2021	5.00	27,322	3.00	16,000	3.00	45,000	88,322
2022	5.00	18,644	3.00	17,000	3.00	47,000	82,644
2023			3.00	18,000	3.00	48,000	66,000
2024			3.00	18,000	3.00	50,000	68,000
2025			3.00	19,000	3.00	51,000	70,000
2026			3.00	19,000	3.00	53,000	72,000
2027					3.00	55,000	55,000
Totals		<u>\$ 256,934</u>		<u>\$ 248,000</u>		<u>\$ 730,000</u>	<u>\$ 1,234,934</u>

See accompanying independent auditors' report.

City of Baxter, Iowa  
Schedule of Receipts by Source and Disbursements by Function  
All Governmental Funds  
For Two Years

Schedule 4

	2010	2009
Receipts		
Property taxes	\$ 170,979	\$ 120,478
Tax Increment Financing Collections	140,593	235,077
Other City Taxes	76,647	84,650
Licenses and permits	2,990	2,970
Use of money and property	8,893	13,245
Intergovernmental	111,214	104,506
Charges for service	2,158	2,084
Miscellaneous	7,664	5,536
Total	<u>\$ 521,138</u>	<u>\$ 568,546</u>
Disbursements		
Operating		
Public safety	\$ 148,271	\$ 152,858
Public works	110,023	124,575
Health and Social Services	780	780
Culture and recreation	37,420	40,658
Community and economic development	194,029	191,548
General government	59,301	66,658
Debt service	10,476	12,402
Total	<u>\$ 560,300</u>	<u>\$ 589,479</u>

*See accompanying independent auditors' report.*

City of Baxter, Iowa  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2010

Schedule 5

Grantor/Program	CFDA Number	Program Expenditures
Pass- Through Program From:		
U.S. Environmental Protection Agency		
Iowa Department of Natural Resources		
Capitalization Grants for Clean Water State Revolving Funds	ARRA 66.458	\$ 568,231
Capitalization Grants for Drinking Water State Revolving Funds	ARRA 66.468	68,000
U.S. Department of Housing and Urban Development		
Iowa Department of Economic Development		
Community Development Block Grants/ State's	ARRA 14.228	218,622
Program and Non- Entitlement Grants in Hawaii		<u>\$ 854,853</u>



# POLLARD AND COMPANY P.C.

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CERTIFIED PUBLIC ACCOUNTANTS

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund and the aggregate remaining fund information of the City of Baxter, Iowa as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon as dated below. Our report expressed qualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Baxter's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, we identified deficiencies in internal control over financial reporting, described in Part II of the accompanying Schedule of Findings and Questioned Costs, that we considered to be a material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Baxter's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Baxter's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusion on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a matter of public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Baxter and other parties to whom the City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

January 25, 2011

*Pollard and Company P.C.*

# POLLARD AND COMPANY P.C.

## CERTIFIED PUBLIC ACCOUNTANTS

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### REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and Members of the City Council

#### Compliance

We have audited the compliance of the City of Baxter with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2010. The City's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Baxter complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2010.

#### Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described on the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, we identified a deficiency in internal

control over compliance, described in Part III of the accompanying Schedule of Findings and Questioned Costs that we considered to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

The City of Baxter's responses to findings in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusion on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information of the officials, employees and citizens of the City of Baxter and other parties, including and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties

January 25, 2011

*Pollard and Company P.C.*

CITY OF BAXTER, IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010

PART I- SUMMARY OF AUDITOR'S RESULTS

- a. Qualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b. Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. Material weaknesses in internal control over the major program was disclosed by the audit of the financial statements.
- e. An unqualified opinion was issued on compliance with the requirements applicable to the major program.
- f. The audit did not disclose any findings which are required to be reported in accordance with Circular A-133, Section .510(a).
- g. The major program was CFDA Number 66.458 Capitalization Grants for Clean Water State Revolving Funds.
- h. The dollar threshold used to distinguish between Type A and B programs was \$ 300,000.
- i. The City did not qualify as a low-risk auditee.

PART II Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES:

II-A-10 Segregation of Duties

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The posting of the cash receipts and disbursements to the general ledger, reconciliations and securities control and custody are all done by the same person.

Recommendation

We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response

The City will attempt to segregate duties to the extent possible to provide additional control through review of financial transactions and reports and segregation of duties.

Conclusion- Response accepted.

II-B-10 Dual Signature on Checks

The City's policy requires dual signatures on checks. The signature stamp used by the mayor is applied by the city clerk after the city clerk personally signs each check.

Recommendation

The purpose of dual signatures is for two different people to authorize the payment of city funds to vendors, employees and others.

Response

The mayor will take possession of the signature stamp and apply the second signature.

Conclusion- Response accepted.

INSTANCES OF NON- COMPLIANCE:

No matters were noted.

PART III Findings and Questioned Costs For Federal Awards

INSTANCES OF NON- COMPLIANCE

No matters were noted.

INTERNAL CONTROL DEFICIENCIES

III-A-10 Segregation of Duties Over Federal Receipts and Disbursements- The City did not segregate duties including those related to federal programs. Even though the City hired an outside project administrator, the actual receipts and disbursements were processed by the City. See items II-A-10 and II-B-10.

PART IV Other Findings Related to Required Statutory Reporting

IV-A-10 Certified Budget

The certified budget was amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

IV-B-10 Questionable Disbursements

We noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-10 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

PART IV      Other Findings Related to Required Statutory Reporting ( continued)

IV-D-10 Business Transactions

During the year ended June 20, 2010, the City purchased goods and services from the following City officials:

Bryan DeJong	Council Member and owner of Baxter Oil Company	\$12,515
Kelly Milligan	Council Member and owner of Keltek Incorporated	\$474

Recommendation

Since the payments to Baxter Oil Company are in excess of \$2,500, they may be in violation of Chapter 362.5(11) of the Code of Iowa. The City should consult legal counsel to determine the disposition of this matter.

Response

We purchase fuel and supplies from Baxter Oil Company , which is the only type of vendor within the City.

Conclusion – Response accepted.

IV-E-10 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions.

IV-F-10 Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-10 Deposits and Investments

We noted no instances of noncompliance with deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

IV-H-10 Retention of Electronic Records

As required by Chapter 554D.114(5) of the Code of Iowa, if a bank retains the City's checks in electronic format, the check images received by the City should display both the front and back of the check.

Recommendation

The City should contact the bank to determine the disposition of this matter.

Response

We will contact the bank and discuss the matter with them.

Conclusion - Response accepted.